



# INTERNAL AUDIT REPORT

## RETIREMENT

June 3, 2002

Roanoke City Council Audit Committee  
Roanoke, Virginia

We have completed a substantive audit of the Retirement department. Our audit was performed in accordance with generally accepted government auditing standards.

### **BACKGROUND**

The City of Roanoke currently administers two major retirement plans, the Employees' Retirement System (ERS) and the Employees' Supplemental Retirement System (ESRS). The ESRS plan was established on July 1, 1984, at which time employees were allowed to elect to transfer into the new plan or remain in the old ERS plan. All employees hired after July 1, 1984 and forward have been enrolled in the ESRS plan. The ESRS plan covers all full-time regular employees of the City, the Roanoke Regional Airport Commission, and the Roanoke Valley Detention Commission. The plan also covers certain employees of the Roanoke Valley Resource Authority and Roanoke City Public Schools. Employees do not contribute to the plan unless they are purchasing service. The City makes the necessary contribution as required by the plan's actuary on an annual basis. The contribution is included in the City's annual budget as adopted by City Council.

The City also provides a Section 457 deferred compensation plan that employees can enroll in that is administered by the ICMA Retirement Corporation (ICMA). Participating employees can contribute pre-tax dollars into a retirement account held in trust by ICMA. The contributions are made via automatic payroll deductions. The City will match employee contributions up to \$25 each pay period. Upon reaching normal retirement age and retiring from the City, employees can withdraw funds from their ICMA account.

The Retirement department has three full-time employees, a Retirement Administrator, a Retirement Accountant, and an Account Technician. The department reports to the Director of Finance and is governed by a Pension Board that includes citizens, as well as former and current employees. The department produces its own comprehensive annual financial report (CAFR) annually that is audited by the City's external auditors, KPMG, LLP. The department is also subject to periodic internal audits by the Municipal Auditing department. The Retirement department was scheduled to be audited internally in the Spring of 2002. The former Retirement Administrator retired in June 2001 and we decided to allow the new Administrator a period of time to settle in before proceeding with the audit. Unfortunately, the new Retirement Administrator passed away in March of this year before the audit was initiated. As a result, we have changed

the audit from an evaluation of controls to performing more substantive testing of transactions.

### **PURPOSE**

The purpose of this audit was to evaluate enrollment and benefit transactions in the City's pension plan, as well as contributions and account activity related to ICMA accounts.

### **SCOPE**

We evaluated activity occurring in the pension plan and ICMA accounts between July 1, 2001, and March 31, 2002.

### **METHODOLOGY**

We obtained an understanding of the retirement process by reviewing applicable City Code, reviewing retirement plan documentation, and by interviewing the Retirement Accountant. Based on our understanding of the retirement process, we developed an audit program of substantive tests. Statistical sampling was not performed due to the size of the data population and data configuration.

### **RESULTS**

We confirmed the value of the pension plan's investment holdings with the trustee, State Street. Our test program included looking at the Retirement department's reconciliation between the investment account and the City's general ledger account. We also reviewed the reconciliation between the cash balances on the general ledger and the Treasurer's Statement of Accountability. We noted no unusual or inappropriate reconciling items.

We reviewed all retirements entered into the retirement system between September 1, 2001 and March 31, 2002, and verified that supporting documents were on file. Using our data retrieval software, we produced a listing of all new retirees receiving retirement checks. We verified that the Pension Board approved these retirements by tracing them back to the Board's minutes. We found all new retirements over the test period were approved and supported.

We obtained a listing of persons receiving distributions from ICMA for the period between September 1, 2001 and March 31, 2002. We verified that each person receiving a distribution from ICMA was an actual retired City employee. We found that all distributions over the test period were adequately supported.

We also verified that contributions to ICMA deducted from employees' paychecks and the related city matching payments were remitted to ICMA. We documented the total amount of money to be contributed to ICMA between August 29, 2001 and March 27, 2002 based on a report generated by the City payroll department. We then verified that the amount of money transferred to ICMA per the wire transfer request for each pay period matched the amount documented on the report from payroll. Finally, we

reviewed confirmation letters from ICMA documenting the amount of funds actually received by ICMA from the City for each pay period. It appears that ICMA received all funds remitted to it during the period August 29, 2001 and March 27, 2002.

We verified that distributions from the former Retirement Administrator's ICMA account were proper. We recalculated the expected contributions to the Administrator's account based on the bi-weekly contributions elected by the Administrator.

We reviewed all pension fund administrative expenses paid via check for the period July 1, 2001, to March 31, 2002. During the review of administrative expenses, we noted the following concern:

### **Finding 01: Retirement Reception**

A disbursement of \$1,303 was made from pension fund monies on July 11, 2001 to pay catering expenses related to a reception for the retiring Retirement Administrator. The Director of Finance at that time, who has since retired, authorized the expenditure. The City's administrative procedure 4.16 specifically states that city funds should not be used for individual retirement parties or gifts. City Code Section 22.1-35 reads as follows: "No member or employee of the board [i.e. Pension board] shall, directly or indirectly, for himself or as an agent, in any manner use the assets of the city plan, except to make such current and necessary payments as are authorized by the board." Based on this language, we felt the expenditure in question could have been allowable had the Pension Board approved it. We reviewed the minutes of the Pension Board meetings and found no references to the retirement reception. We contacted the Chairman of the Pension Board and determined that the expenditure was not brought before the Board for discussion. However, the Chairman expressed his sentiments that the expenditure was justified based on the past service and dedication of the Retirement Administrator. He also suggested that the Director of Finance had the authority and discretion to make the expenditure as the "Secretary-Treasurer" for the Plan.

### **Recommendation 01: Retirement Reception**

We recommend that administrative expenditures that are unusual in nature, such as a catered reception, should be approved by the Pension Board of Trustees.

### **Management Response 01: Retirement Reception**

We concur with the audit recommendation.

**CONCLUSION**

Based on the results of our audit work, we believe the enrollment and benefit transactions in the City's pension plan, as well as contributions and account activity related to ICMA accounts were appropriate and well supported.

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